

Message Text

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60

ACTION TRSE-00

INFO OCT-01 EUR-25 EA-11 ADP-00 L-03 NSC-10 CIAE-00 INR-10

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INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

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AMCONSUL HONG KONG

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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PASS TREASURY AND FEDERAL RESERVE AND CEA

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJ: SUMMARY OF ECONOMIC SITUATION IN JAPAN

1. THE ADVANCE IN REAL GNP DROPPED ABRUPTLY IN THE SECOND
QUARTER, ACCORDING TO ROUGH ESTIMATES BY EPA (SEVERAL
WEEKS IN ADVANCE OF USUAL PRELIMINARY FIGURES). THE
SEASONALLY ADJUSTED COMPOUND ANNUAL RATE OF INCREASE OF
5.7 PERCENT WAS VERY MUCH SMALLER THAN RATES OF 15.3

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PERCENT IN THE FIRST QUARTER AND 17.0 PERCENT IN THE

FOURTH QUARTER OF 1972. THE SLOWDOWN REFLECTS AN ACTUAL DECLINE IN GOVT INVESTMENT, SLOWER GROWTH IN CONSUMPTION, REDUCED RATE OF INVENTORY BUILDING, AND A SMALLER NET FOREIGN SURPLUS. THE RATE OF ADVANCE IN PRIVATE FIXED INVESTMENT, ON THE OTHER HAND, CONTINUED TO ACCELERATE. FINAL DOMESTIC PURCHASES ON CONSTANT PRICES (I.E. GNP LESS INVENTORY ACCUMULATION AND NET FOREIGN BALANCE) WHICH HAD ADVANCED AT A SEASONALLY ADJUSTED COMPOUND ANNUAL RATE OF 18.5 PERCENT IN THE FIRST QUARTER DROPPED TO ONLY 8.7 PERCENT IN THE SECOND QUARTER.

2. EXPORTS OF GOODS AND SERVICES IN CONSTANT PRICES ROSE 2.8 PERCENT SEASONALLY ADJUSTED DURING THE SECOND QUARTER WHEREAS IMPORTS ROSE 9.4 PERCENT OVER THE FIRST QUARTER. THE EXTERNAL SURPLUS DROPPED TO YEN1.2 BIL IN CONSTANT PRICES FROM YEN1.7 BIL IN THE FIRST QUARTER BUT IN TERMS OF CURRENT PRICES ROSE TO YEN2 BIL FROM YEN1.6 BIL.

3. THE RATE OF PRICE INCREASE HAS CONTINUED TO ACCELERATE. THE GNP IMPLICIT PRICE DEFLATOR INCREASED BY OVER 8 PERCENT FROM A YEAR EARLIER, ACCORDING TO THESE ROUGH ESTIMATES, COMPARED WITH ANNUAL INCREASES OF 7 PERCENT AND 5 PERCENT, RESPECTIVELY, IN EACH OF THE TWO PREVIOUS QUARTERS. WHOLESALE PRICES ARE EXPECTED TO RISE BY 2 PERCENT IN AUG WHICH WOULD EQUAL THE JULY INCREASE. PRICES HAVE RISEN BY 12.2 PERCENT SINCE THE BEGINNING OF THE YEAR AND ARE 17.2 PERCENT HIGHER THAN A YEAR AGO. CONSUMER PRICES ARE UP 11.9 PERCENT OVER JULY 1972.

4. THE INVENTORY TO SHIPMENT RATIO OF MAJOR JAPANESE INDUSTRIES DROPPED TO A RECORD LOW IN JULY, AND THIS SITUATION IS CAUSING SEVERE SHORTAGES OF COMMODITIES AND MATERIALS WHICH IS PREVENTING FURTHER INCREASES, AND IN SOME CASES CUTBACKS, IN DOMESTIC PRODUCTION. THUS, INDUSTRIAL PRODUCTION, SEASONALLY ADJUSTED, DROPPED SLIGHTLY (0.2 PERCENT) FROM ITS LEVEL IN JUNE. SHIPMENTS, HOWEVER, INCREASED BY 1.7 PERCENT IN JULY, BUT THE RATIO OF SHIPMENTS DROPPED TO THE LOWEST ON RECORD OF 86.6.

5. MITI OFFICIALS CAUTION THAT FUTURE SUPPLIES OF INDUSTRIAL

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PRODUCTS ARE LIKELY TO RUN SHORT. OFFICIALS REITERATE THAT IN MANY CASES EXISTING PRODUCTION FACILITIES ARE OPERATING AT OR NEAR CAPACITY. IN ADDITION, SHORTAGES OF INDUSTRIAL SUPPLIES SUCH AS PLASTICS, STEEL, ETC AND OTHER MATERIALS USED IN PRODUCTION PROCESSES, SUCH AS ELECTRICITY AND WATER, AS WELL AS LABOR, HAVE NOW REACHED SERIOUS PROPORTIONS, ALL OF THIS IN THE FACE OF STRONG PRIVATE DEMAND FOR GOODS.

6. THE BANK OF JAPAN, IN A FURTHER ATTEMPT TO COMBAT RAPIDLY RISING PRICES AND A STRONG INTERNAL DEMAND SITUATION, DECIDED ON AUG 28 TO RAISE THE OFFICIAL DISCOUNT RATE BY 1.0 PERCENT TO 7.0 PERCENT. THIS REPRESENTS THE FOURTH DISCOUNT RATE HIKE IN THE LAST FOUR MONTHS. OFFICIALS ANNOUNCED THAT RESERVE RATIOS FOR COMMERCIAL BANKS WILL ALSO BE INCREASED EFFECTIVE SEP 1, 1973. IN ADDITION, CEILINGS ON COMMERCIAL BANK LENDING TO MAJOR BOJ CORPORATIONS WILL BE REDUCED EVEN FURTHER IN THE COMING MONTHS. THE GOVERNMENT IS ALSO PLANNING TO FURTHER POSTPONE CAPITAL AND CURRENT EXPENDITURES OF APPROX YEN500 BIL APPROVED IN THIS YEAR'S BUDGET. THIS PLUS OTHER POSSIBLE FISCAL ACTIONS WILL BE TAKEN IN CONJUNCTION WITH DISCOUNT RATE HIKE AS PART OF COMPREHENSIVE GOVT POLICY TO CONTROL PRICES.

7. RECENT BALANCE OF PAYMENTS DEVELOPMENTS CAN BE FOUND IN THE SUMMARY TO TOKYO 10416.

8. EPA'S ANNUAL ECONOMIC WHITE PAPER HAS BEEN PUBLISHED. ITS MAIN EMPHASIS THIS YEAR IS THE INFLATIONARY SITUATION. IT WARNS THAT STABILITY OF PRICES WILL NOT BE ATTAINED UNLESS OVERALL DEMAND MANAGEMENT IS PURSUED WITH STRONGER DETERMINATION. IT SUGGESTS THERE SHOULD BE A THOROUGH DISCUSSION OF POLICIES THAT NEED TO BE TAKEN.
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